

## Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Petoskey	County Emmet
Fiscal Year End 12/31/2005	Opinion Date 04/21/2006	Date Audit Report Submitted to State 06/30/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

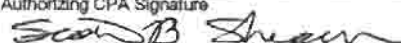
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None noted	
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Hill, Schroderus, & Company, LLP		Telephone Number (231) 347-4136	
Street Address 923 Spring Street		City Petoskey	State MI
		Zip 49770	
Authorizing CPA Signature 	Printed Name Scott B. Shearer		License Number 1101026946

FINANCIAL REPORT  
CITY OF PETOSKEY  
December 31, 2005

CITY OF PETOSKEY  
FINANCIAL REPORT  
December 31, 2005

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# Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

April 21, 2006

## Independent Auditor's Report

Honorable Mayor, Members of  
City Council and City Manager  
City of Petoskey, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Petoskey, Michigan, as of and for the year-ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Petoskey as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund and the Major Special Revenue Funds, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the pension plan trend information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Petoskey's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hill, Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan



# City of Petoskey

101 East Lake Street, Petoskey, Michigan 49770 • 231 347-2500 • Fax 231 348-0350

## Management Discussion and Analysis December 31, 2005

The City of Petoskey's financial statements consist of a series of financial reports. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how the services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

### Financial Highlights

The City's net assets increased by \$2.6 million or 4.5% in 2005 with the increase made up of the following:

- Governmental net assets increased by \$1.5 million.
- Business-type net assets increased by \$0.9 million.
- Component units net assets increased by \$0.2 million.

Total revenues and transfers for the year are \$24.1 million and are made up of the following:

- Governmental activities \$9.6 million.
- Business-type activities \$13.0 million.
- Component units activities \$1.5 million.

Total expenses for the year are \$21.9 million and are made up of the following:

- Governmental activities \$8.5 million.
- Business-type activities \$12.1 million.
- Component units activities \$1.3 million.

The General Fund, on a current financial resources basis, experienced an increase of \$101,856 in fund balance resulting in a total fund balance at year-end of \$2.6 million.

### Project Highlights

The City's West Lake Street Vicinity reconstruction project that includes: improvements to various streets, the water, sewer and electric distribution systems, sidewalks, landscaping, street lighting, a walkway and a portion of the bike trail were largely completed in 2005. Costs for 2005 totaled \$3.1 million with an estimated \$800,000 necessary to finish the project in 2006.

## Financial Statement Presentation

### Overview of Statements

The financial statements provide two views of the City's financial position. Government-wide statements are the top level, which summarizes all City funds into two statements using the full accrual method of accounting. This method of accounting is similar to private sector for-profit accounting.

Government-wide statements include the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes: assets, liabilities and the resulting difference between the two called net assets. Changes in net assets can be reviewed to determine financial strength with increases to net assets perceived as a sign of improving condition.

The Statement of Activities presents revenues and expenses (including depreciation) that are the underlying cause of changes in net assets. Capital projects are excluded from this statement since they are included in the Statement of Net Assets as additions to capital assets.

Fund financial statements under GASB Statement 34 separate funds into major and nonmajor categories. Major funds focus on funds with a large amount of financial activities which results in the inclusion of more detailed information. Governmental Funds for the City of Petoskey include the following major funds:

- General Fund
- Right-of-Way Improvement Fund
- Major Street Fund
- Local Street Fund

Nonmajor funds are smaller funds with less activity and are consolidated into one column in the fund financial statements. Additional and more detailed information on nonmajor funds is presented after the notes to the financial statements.

### Fund Type Statements

The City's funds are organized on the basis of individual funds with each fund having a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Funds are classified as either governmental, proprietary or fiduciary in nature.

Governmental funds make up the funds included within the governmental activities column of the government-wide statements discussed above, except for internal services funds (Motor pool and Fringe Benefits) that are included in government-wide statements and are not governmental funds. Governmental funds utilize a modified accrual basis of accounting that focuses on more available and spendable resources and expenses. Items like debt payments and capital purchases. Long-term debt and depreciation are not recorded under the modified accrual basis of accounting.

## Financial Statement Presentation – Continued

### Fund Type Statements – Continued

This varies from the full accrual basis of accounting used in the government-wide statements that records the purchase of capital items as assets and depreciates them over time and records long-term debt as a liability, reducing the principal portion from the liability when paid and only expensing interest. There are also other less significant differences between the two accounting methods.

Proprietary funds use the full accrual method of accounting for both government-wide and fund level financial statements. There are two types of proprietary funds: enterprise funds and internal service funds.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where costs for goods and services are provided to the general public are recovered primarily through user charges. The City's enterprise funds include the Electric, Water and Sewer, and Downtown Management Parking Funds, although the Downtown Management Parking Fund is included as a component unit.

Internal service funds are like enterprise funds except they only provide their goods or services to City departments and agencies. The City's internal service funds include the Fringe Benefit and Motor Pool Funds. Internal service funds are consolidated into the governmental activities in the government-wide statements and are presented separately in the fund level statements.

Component units are separate legal entities for which the City has some level of financial accountability and oversight control. Component units are shown in a separate column of the government-wide financial statements. The City's component units include the Tax Increment Finance Authority, Library, and Downtown Management Parking Funds. Separate financial statements for the component units are not required and none are issued.



## Financial Analysis

### SUMMARY OF NET ASSETS December 31, 2005 and 2004

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 6,228,268	\$ 5,573,086	\$ 16,920,816	\$ 18,641,525	\$ 23,149,084	\$ 24,214,611
Capital assets	17,223,865	16,035,965	32,043,996	30,529,591	49,267,861	46,565,556
Total assets	<u>\$ 23,452,133</u>	<u>\$ 21,609,051</u>	<u>\$ 48,964,812</u>	<u>\$ 49,171,116</u>	<u>\$ 72,416,945</u>	<u>\$ 70,780,167</u>
Current and other liabilities	\$ 660,007	\$ 780,384	\$ 1,957,593	\$ 2,044,972	\$ 2,617,600	\$ 2,825,356
Long-term debt outstanding	785,000	993,917	11,561,907	11,913,775	12,346,907	12,907,692
Total liabilities	<u>\$ 1,445,007</u>	<u>\$ 1,774,301</u>	<u>\$ 13,519,500</u>	<u>\$ 13,958,747</u>	<u>\$ 14,964,507</u>	<u>\$ 15,733,048</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 16,283,865	\$ 14,832,048	\$ 20,112,089	\$ 17,959,591	\$ 36,395,954	\$ 32,791,639
Restricted:	63,084	77,494	4,498,657	4,688,615	4,561,741	4,766,109
Unrestricted	5,660,177	4,925,208	10,834,566	12,564,163	16,494,743	17,489,371
Total net assets	<u>\$ 22,007,126</u>	<u>\$ 19,834,750</u>	<u>\$ 35,445,312</u>	<u>\$ 35,212,369</u>	<u>\$ 57,452,438</u>	<u>\$ 55,047,119</u>

Total net assets of the City are \$57,452,438, which includes \$36,920,954 in capital assets net of debt. Capital assets are largely made up of electric system, water system, sewer system and street system assets.

The City used fund balance reserves in the following governmental funds and amounts during 2005 to cover anticipated expenditures that were included in the City's 2005 budget:

Major Street Fund	\$ 323,146
Local Street Fund	103,353
Tax Increment Finance Authority Fund	11,282
Library Fund	377,921
Downtown Development and Management Fund	2,266

## Financial Analysis –Continued

### Common Effect to Net Assets

There are a number of transactions in the normal course of business that will effect the comparability of the Summary of Net Assets presentation.

The net result of business activities for the year will impact (increase/decrease) current assets and/or net assets.

Borrowing capital will increase current assets and long-term debt.

Spending of borrowed proceeds on capital projects will reduce current assets and increase capital assets while having no impact on invested in capital assets, net of debt.

Spending non-borrowed current assets on capital projects will reduce current assets and increase capital assets while reducing unrestricted net assets and increasing invested in capital assets, net of debt.

Principal payment on debt will reduce current assets, long-term debt and unrestricted net assets while increasing invested in capital assets, net of related debt.

The reduction of capital assets due to annual depreciation will reduce capital assets and invested in capital assets, net of debt.

# Financial Analysis – Continued

## Changes in Net Assets December 31, 2005 and 2004

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 1,816,144	\$ 1,687,121	\$ 13,262,873	\$ 12,118,252	\$ 15,079,017	\$ 13,805,373
Operating grants and contributions	687,857	831,931	89,335	79,940	777,192	911,871
Capital grants and contributions	70,000	-	194,972	254,455	264,972	254,455
	<u>2,574,001</u>	<u>2,519,052</u>	<u>13,547,180</u>	<u>12,452,647</u>	<u>16,121,181</u>	<u>14,971,699</u>
General revenues:						
Property taxes	5,251,365	5,104,246	-	-	5,251,365	5,104,246
Sales tax	568,540	564,390	-	-	568,540	564,390
Investment earnings	250,619	206,443	274,666	359,307	525,285	565,750
Other	-	-	-	-	-	-
	<u>6,070,524</u>	<u>5,875,079</u>	<u>274,666</u>	<u>359,307</u>	<u>6,345,190</u>	<u>6,234,386</u>
Total revenues	<u>8,644,525</u>	<u>8,394,131</u>	<u>13,821,846</u>	<u>12,811,954</u>	<u>22,466,371</u>	<u>21,206,085</u>
Expenses:						
Legislative	8,244	11,443	-	-	8,244	11,443
General government	1,662,621	1,362,219	-	-	1,662,621	1,362,219
Public safety	2,550,878	2,474,481	-	-	2,550,878	2,474,481
Public works	1,909,355	1,737,297	-	-	1,909,355	1,737,297
Health and welfare	18,856	21,012	-	-	18,856	21,012
Recreation and cultural	1,401,617	1,426,241	-	-	1,401,617	1,426,241
Other	98,100	1,652	-	-	98,100	1,652
Interest on long-term debt	53,343	67,949	-	-	53,343	67,949
Unallocated depreciation	780,657	722,856	-	-	780,657	722,856
Water and Sewer	-	-	3,939,361	3,815,988	3,939,361	3,815,988
Electric	-	-	8,193,309	6,663,387	8,193,309	6,663,387
	<u>8,483,671</u>	<u>7,825,150</u>	<u>12,132,670</u>	<u>10,479,375</u>	<u>20,616,341</u>	<u>18,304,525</u>
Changes in net assets before transfers:	160,854	568,981	1,689,176	2,332,579	1,850,030	2,901,560
Transfers	983,688	506,022	(819,400)	(370,000)	164,288	136,022
Change in net assets	1,144,542	1,075,003	869,776	1,962,579	2,014,318	3,037,582
Net assets-beginning of year	19,834,750	18,759,747	35,212,369	33,249,790	55,047,119	52,009,537
Prior period adjustments	375,006	-	-	-	375,006	-
Change in consolidation method	652,828	-	(636,833)	-	15,995	-
Net assets-end of year	<u>\$ 22,007,126</u>	<u>\$ 19,834,750</u>	<u>\$ 35,445,312</u>	<u>\$ 35,212,369</u>	<u>\$ 57,452,438</u>	<u>\$ 55,047,119</u>

## Financial Analysis – Continued

Capital grants and contributions in program revenues for Governmental Activities increased to \$70,000 in 2005, up from \$0 in 2004. The \$70,000 reflects the estimated value of the Chief Petosega statue donated to the City of Petoskey and erected on Lewis Street last year.

Charges for services in Business-type Activities increased from \$12,118,252 in 2004 to \$13,262,873 in 2005 when a record hot summer resulted in an increase in electric sales. Expenses in the Electric Fund also increased in part due to the increase in usage and as a result of increased costs from changes in the electric wholesale market.

Revenues from all sources totaled \$22,466,371, of which \$8,644,525 was from governmental activities and \$13,821,846 from business-type activities. Total revenues from governmental activities includes \$5,251,365 or 60.7% from property taxes and \$1,816,144 or 21.0% from charges for services. Total revenue from business-type activities includes \$13,262,873 or 96.0% from charges for services.

Expenses under the full accrual basis of accounting for governmental activities totaled \$8,483,671 which includes depreciation on such items as buildings and infrastructure amounting to \$780,657. Total expense does not include capital asset items such as reconstructed streets and sidewalks. Public safety accounts for \$2,550,878 or 30.1% of expenses while public works totals \$1,909,355 or 22.5%. General government at \$1,662,621 and recreation and cultural at \$1,401,617 are similar at 19.6% and 16.5%, respectively.

Expenses for business-type activities total \$12,132,670, which is made up of \$8,193,309 or 67.5% from the electric system and \$3,939,361 or 32.5% from the water and sewer systems. Within the electric system, \$6,088,737 or 74.3% of the expense is for purchased power. The water and sewer system costs are broken down between the two at \$1,851,926 or 47.0% water and \$2,087,435 or 53.0% sewer.

Prior period adjustments consist of reclassifying street maintenance expenses from the General Street Fund to the Major Street Fund of \$41,747, reclassifying health insurance expenses of \$58,206 and capitalizing prior year's sidewalk expenditures of \$358,547 for a total of \$375,006.

Change in consolidation method of \$652,828 results due to a change in the presentation method of the Internal Service Funds that include the Motorpool Fund and the Fringe Benefit Fund in the financial report.

## General Fund Budgetary Highlights

Total General Fund revenues of \$6,589,413 exceeded total budgeted revenues as amended of \$6,382,100 by \$207,313 or 3.2%. Actual revenues increased by 4.7% or \$309,549 in 2005 after decreasing by \$440,607 in 2004. The increase is primarily made up of taxes at \$97,702 or 2.9%, Marina fuel sales of \$94,672 or 41.0% and administration fees charged to other funds of \$139,700 or 12.4%. State revenue sharing again declined from the previous year's total of \$654,873 to \$581,737 in the current year, a reduction of \$73,136.

## General Fund Budgetary Highlights – Continued

Total General Fund expenditures of \$6,834,557 exceeded total budgeted expenditures as amended of \$6,601,300 by \$233,257 or 3.5%. Total expenditures increased by \$606,062 or 9.7% over the \$6,228,495 spent in 2004. Accounting for most of the difference is City Assessor's expenditures that increased by \$214,020 with the City-wide property reappraisal. Department of Public Safety expenditures increased by \$288,259 or 12.2% and Parks increased by \$59,293 or 8.7%.

There were not any significant variations between original and final budget amounts and between final budget amounts and actual budget results. Therefore, there are not any variations that would have any impact on future services or liquidity.

## Capital Assets and Debt Administration

### Capital Assets

As of year-end, the City of Petoskey had \$49,267,860 invested in capital assets as reflected in the following schedule.

#### Capital Assets December 31, 2005 and 2004 (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land and land rights	\$ 1,887,069	\$ 1,887,069	\$ 837,856	\$ 837,856	\$ 2,724,925	\$ 2,724,925
Land improvements	437,402	365,180	-	-	437,402	365,180
Buildings	2,313,747	2,413,257	-	-	2,313,747	2,413,257
Office equipment	2,180,144	380,733	-	-	2,180,144	380,733
Streets and sidewalks	8,626,850	9,163,272	-	-	8,626,850	9,163,272
Motor pool	1,778,653	1,826,454	-	-	1,778,653	1,826,454
Electric system	-	-	10,365,272	8,863,791	10,365,272	8,863,791
Water system	-	-	9,211,538	9,059,610	9,211,538	9,059,610
Sewer system	-	-	11,629,329	11,768,334	11,629,329	11,768,334
	<u>\$ 17,223,865</u>	<u>\$ 16,035,965</u>	<u>\$ 32,043,995</u>	<u>\$ 30,529,591</u>	<u>\$ 49,267,860</u>	<u>\$ 46,565,556</u>

Major capital asset additions for 2005 include:

#### Governmental Activities

Street reconstruction projects	\$ 1,163,657
Lime Kiln Boardwalk	102,360
Snowplow truck	115,204
Motor pool replacements	138,957

#### Business-type Activities

Water system improvements	462,235
Sewer system improvements	255,949
Electric systems improvements	1,793,237

## Capital Assets and Debt Administration – Continued

### Bond Debt

The City had \$13,130,000 in outstanding bond debt at year-end, which is distributed in the following debt schedule.

Debt Schedule  
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Governmental Activities		
General Obligation Bonds:		
Special assessment	\$ -	\$ 55,000
Municipal facilities	395,000	500,000
Parking improvements	545,000	595,000
	<u>940,000</u>	<u>1,150,000</u>
Business-type Activities		
Revenue Bonds:		
Sewer system improvements	7,350,000	7,400,000
Water system improvements	4,840,000	5,170,000
	<u>12,190,000</u>	<u>12,570,000</u>
Total bond debt	<u>\$ 13,130,000</u>	<u>\$ 13,720,000</u>

Principal payments on bonds in the amount of \$210,000 for governmental activities and \$380,000 for business-type activities were made in 2005.

### Economic Factors

The City of Petoskey's three largest sources of revenue include property taxes, revenues received from the state and utility charges. The economic forecast for the community is highly dependent on these three revenue sources.

Property tax revenue experienced substantial growth due to the development of Bay Harbor over the last several years. Bay Harbor makes up over half of the City's total taxable value and now, with a major portion of the development complete, the City will experience much less impact from future construction. Due to current economic conditions, there has been some decline in the property that the City will not regain when economic conditions improve and values increase based on State valuation laws. The City will continue to see taxable value increase at 5% or the rate of inflation, whichever is less. The inflation rate has always been less than the 5% limit with the rate in 2005 at 3.824% and 2006 reduced to 3.3%.

## **Economic Factors – Continued**

Revenues received from the State, which include revenue sharing and transportation funds, are affected as well by current economic conditions along with allocations to local units as established by the legislature. Revenue sharing amounts are dependent on the collection of sales tax, which tends to go down when the economy is slow with the reverse being true when the economy is good. Transportation funds are derived through gas taxes and while they are affected by the economy they are more affected by the price of oil and resulting gas prices paid at the pump that do not always follow certain economic conditions. As mentioned earlier, State revenue sharing declined again this year by 11% while transportation funds also went down by 7% in the Major Street Fund and 16% in the Local Street Fund.

Utility charges for electric, water and sewer service tend to fluctuate based on weather conditions more so than any other factor. During hot summer months, electrical usage will be up while dry spells will increase water usage. Water utility rates have not been increased in several years, but due to rising costs plus concerns over water quality issues increases in water rates will be required in the near future. Sewer rates were increased in 2005 to help cover increasing costs for the sewer system. Electric sales were up significantly in 2005, but due to increased electric costs net income did not increase overall.

## **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Director of Finance at 101 E. Lake Street, Petoskey, MI 49770.



**CITY OF PETOSKEY**  
**Statement of Net Assets**  
**December 31, 2005**

<u>Assets</u>	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Current Assets</b>			
Cash	\$ 4,441,806	\$ 4,476,901	\$ 8,918,707
Investments	678,867	4,897,387	5,576,254
Receivables:			
Taxes	-	-	-
Special assessments	41,958	-	41,958
Accounts	91,422	2,039,417	2,130,839
Due from fiduciary fund	414,830	-	414,830
Due from component units	52,481	-	52,481
Due from other governmental units	181,738	-	181,738
Internal balances	122,433	(122,433)	-
Inventory	136,422	631,256	767,678
Prepaid expenses	66,311	-	66,311
Total current assets	6,228,268	11,922,528	18,150,796
<b>Noncurrent Assets</b>			
Restricted assets:			
Customer deposits	-	191,913	191,913
Sewage service covenants	-	230,274	230,274
Revenue bond covenants	-	2,420,683	2,420,683
MPPA energy restrictions	-	1,847,700	1,847,700
Deferred charges	-	110,998	110,998
MPPA working capital advance	-	196,720	196,720
Capital assets	28,202,422	47,209,192	75,411,614
Less: accumulated depreciation	(10,978,557)	(15,165,196)	(26,143,753)
Total noncurrent assets	17,223,865	37,042,284	54,266,149
Total assets	\$ 23,452,133	\$ 48,964,812	\$ 72,416,945

See accompanying notes to the basic financial statements.

Component Units			
Library		Other Nonmajor Component Units	
\$	389,154	\$	515,863
	-		-
	-		-
	-		-
	61,456		-
	-		-
	-		-
	-		-
	-		-
	-		-
	450,610		515,863
	-		-
	-		-
	-		-
	-		-
	39,174		-
	-		-
	7,099,501		461,017
	(1,158,332)		(31,070)
	5,980,343		429,947
\$	6,430,953	\$	945,810

CITY OF PETOSKEY  
Statement of Net Assets  
(Continued)  
December 31, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b><u>Liabilities and Net Assets</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 319,114	\$ 1,128,119	\$ 1,447,233
Accrued expenses	43,425	7,241	50,666
Due to primary government	-	-	-
Due to other governmental units	-	26,353	26,353
Accrued interest	-	-	-
Payable from restricted assets:			
Current portion of revenue bonds	-	370,000	370,000
Accrued interest	11,240	233,967	245,207
Bonds payable, due within one year	155,000	-	155,000
Total current liabilities	528,779	1,765,680	2,294,459
<b>Noncurrent Liabilities</b>			
Payable from restricted assets:			
Customer deposits	-	191,913	191,913
Estimated liability for landfill closure and post closure care costs	85,000	-	85,000
Compensated absences payable	46,228	-	46,228
Bonds payable, net	785,000	11,561,907	12,346,907
Total noncurrent liabilities	916,228	11,753,820	12,670,048
Total liabilities	1,445,007	13,519,500	14,964,507
<b>Net Assets</b>			
Invested in capital assets, net of related debt	16,283,865	20,112,089	36,395,954
Restricted for:			
Debt service	63,084	-	63,084
Sewage service covenants	-	230,274	230,274
Revenue bond indentures	-	2,420,683	2,420,683
MPPA energy expenses	-	1,847,700	1,847,700
TIFA expenses	-	-	-
Unrestricted	5,660,177	10,834,566	16,494,743
Total net assets	22,007,126	35,445,312	57,452,438
Total liabilities and net assets	\$ 23,452,133	\$ 48,964,812	\$ 72,416,945

See accompanying notes to the basic financial statements.

Component Units	
Library	Other Nonmajor Component Units
\$ 12,169	\$ 10,048
4,346	-
24,193	28,288
-	-
40,594	-
-	-
-	-
50,000	-
131,302	38,336
-	-
-	-
-	-
4,115,660	-
4,115,660	-
4,246,962	38,336
1,775,509	429,947
-	-
-	-
-	-
-	383,863
408,482	93,664
2,183,991	907,474
\$ 6,430,953	\$ 945,810

**CITY OF PETOSKEY**  
**Statement of Activities**  
**For the Year Ended December 31, 2005**

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Library	Other Nonmajor Component Units
					Governmental Activities	Business-type Activities		
Primary Government								
Governmental activities:								
Legislative	\$ 8,244	\$ -	\$ -	\$ -	\$ (8,244)	\$ -	\$ -	\$ -
General government	1,662,621	946,359	9,376	-	(706,886)	-	-	-
Public safety	2,550,878	136,586	3,821	-	(2,410,471)	-	-	-
Public works	1,909,355	-	623,382	-	(1,285,973)	-	-	-
Health and welfare	18,856	-	-	-	(18,856)	-	-	-
Recreation and cultural	1,401,617	733,199	51,278	70,000	(547,140)	-	-	-
Other	98,100	-	-	-	(98,100)	-	-	-
Interest on long-term debt	53,343	-	-	-	(53,343)	-	-	-
Unallocated depreciation	780,657	-	-	-	(780,657)	-	-	-
Total governmental activities	8,483,671	1,816,144	687,857	70,000	(5,909,670)	-	-	-
Business-type activities:								
Water and Sewer	3,939,361	4,205,909	89,335	162,865	-	518,748	-	-
Electric	8,193,309	9,056,964	-	32,107	-	895,762	-	-
Total business-type activities	12,132,670	13,262,873	89,335	194,972	-	1,414,510	-	-
Total primary government	\$ 20,616,341	\$ 15,079,017	\$ 777,192	\$ 264,972	(5,909,670)	1,414,510	-	-
Component Units:								
Library	\$ 1,059,310	\$ 148,123	\$ 25,748	\$ -	-	-	(885,439)	170,004
Other nonmajor component units	224,520	394,524	-	-	-	-	-	-
Total component units	\$ 1,283,830	\$ 542,647	\$ 25,748	\$ -	-	-	(885,439)	170,004
General revenues:								
Property taxes					5,251,365	-	785,929	184,273
Sales taxes					568,540	-	-	-
Unrestricted interest and investment earnings					250,619	234,162	17,438	13,326
Restricted interest and investment earnings					-	40,504	-	-
Transfers					983,688	(819,400)	69,360	(164,288)
Total general revenues and transfers					7,054,212	(544,734)	872,727	33,311
Change in net assets					1,144,542	869,776	112,712	203,315
Net assets - beginning of year					20,487,578	34,575,536	2,196,703	704,159
As previously reported					(41,747)	-	-	-
Adjustment for Bay Harbor sales					58,206	-	-	-
Adjustment for health insurance					358,547	-	-	-
Adjustment for sidewalk capitalization					-	-	-	-
Net assets - end of year					\$ 22,007,126	\$ 35,445,312	\$ 2,183,991	\$ 907,474

See accompanying notes to the basic financial statements.

**CITY OF PETOSKEY**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2005**

<u>Assets</u>	General	Right-of-Way Improvement	Major Street	Local Street	Other Nonmajor Governmental Funds	Total Governmental Funds
Cash	\$ 1,815,254	\$ 652,390	\$ 286,380	\$ 645,781	\$ 154,046	\$ 3,553,851
Investments	678,867	-	-	-	-	678,867
Receivables:						
Special assessments	-	8,911	-	-	33,047	41,958
Accounts	62,879	-	-	282	28,261	91,422
Due from other funds	334,071	137,261	811	-	56,372	528,515
Due from component units	-	-	-	-	28,288	28,288
Due from other governmental units	97,807	-	67,079	16,852	-	181,738
Inventory	-	-	-	-	98,127	98,127
<b>Total assets</b>	<b>\$ 2,988,878</b>	<b>\$ 798,562</b>	<b>\$ 354,270</b>	<b>\$ 662,915</b>	<b>\$ 398,141</b>	<b>\$ 5,202,766</b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 136,214	\$ -	\$ 19,101	\$ 892	\$ 58,028	\$ 214,235
Accrued expenditures	39,214	-	2,217	1,179	-	42,610
Due to other funds	255,371	-	94,302	41,016	4,306	394,995
<b>Total liabilities</b>	<b>430,799</b>	<b>-</b>	<b>115,620</b>	<b>43,087</b>	<b>62,334</b>	<b>651,840</b>
<b>Fund balances</b>						
Reserved for:						
Debt service	-	-	-	-	63,084	63,084
Inventory	-	-	-	-	98,127	98,127
Refuse collection	29,253	-	-	-	-	29,253
Marina	439,285	-	-	-	-	439,285
Unreserved:						
Undesignated	2,089,541	798,562	238,650	619,828	174,596	3,921,177
<b>Total fund balances</b>	<b>2,558,079</b>	<b>798,562</b>	<b>238,650</b>	<b>619,828</b>	<b>335,807</b>	<b>4,550,926</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,988,878</b>	<b>\$ 798,562</b>	<b>\$ 354,270</b>	<b>\$ 662,915</b>	<b>\$ 398,141</b>	<b>\$ 5,202,766</b>

**CITY OF PETOSKEY**  
**Reconciliation of Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**December 31, 2005**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 4,550,926</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their estimated useful lives.	
Governmental capital assets	23,852,414
Accumulated depreciation	(8,407,201)
Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds.	
	(11,240)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
Governmental bonds payable	(940,000)
Landfill post closure costs	(85,000)
Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	
	<u>3,047,227</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 22,007,126</u></b>

**CITY OF PETOSKEY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2005**

	General	Right-of-Way Improvement	Major Street	Local Street	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 3,500,143	\$ 1,693,661	\$ -	\$ -	\$ -	\$ 5,193,804
Special assessments	-	-	-	-	57,561	57,561
Licenses and permits	6,276	-	-	-	-	6,276
State grants	581,737	-	468,699	140,551	-	1,190,987
Contributions from local units	51,278	-	-	-	-	51,278
Charges for services	2,061,356	-	-	-	-	2,061,356
Fines and forfeits	20,288	-	-	-	-	20,288
Interest and investment earnings	149,070	25,905	17,681	24,606	14,503	231,765
Other	219,265	-	-	-	19,491	238,756
<b>Total revenues</b>	<b>6,589,413</b>	<b>1,719,566</b>	<b>486,380</b>	<b>165,157</b>	<b>91,555</b>	<b>9,052,071</b>
<b>Expenditures</b>						
Current:						
Legislative	8,351	-	-	-	-	8,351
General government	1,679,756	-	-	-	-	1,679,756
Public safety	2,674,624	-	-	-	-	2,674,624
Public works	699,453	-	739,929	483,462	385,206	2,308,050
Health and welfare	18,856	-	-	-	-	18,856
Recreation and cultural	1,435,792	-	-	-	-	1,435,792
Other	64,350	33,750	-	-	-	98,100
Capital outlay	253,375	-	719,597	460,048	375,823	1,808,843
Debt service:						
Principal	-	-	-	-	210,000	210,000
Interest and fiscal charges	-	-	-	-	55,087	55,087
<b>Total expenditures</b>	<b>6,834,557</b>	<b>33,750</b>	<b>1,459,526</b>	<b>943,510</b>	<b>1,026,116</b>	<b>10,297,459</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(245,144)</b>	<b>1,685,816</b>	<b>(973,146)</b>	<b>(778,353)</b>	<b>(934,561)</b>	<b>(1,245,388)</b>
<b>Other financing sources (uses)</b>						
Operating transfers in	419,400	-	650,000	675,000	840,422	2,584,822
Operating transfers out	(128,400)	(1,637,022)	-	-	-	(1,765,422)
Transfers from component units	56,000	-	-	-	108,288	164,288
<b>Total other financing sources (uses)</b>	<b>347,000</b>	<b>(1,637,022)</b>	<b>650,000</b>	<b>675,000</b>	<b>948,710</b>	<b>983,688</b>
<b>Net change in fund balances</b>	<b>101,856</b>	<b>48,794</b>	<b>(323,146)</b>	<b>(103,353)</b>	<b>14,149</b>	<b>(261,700)</b>
<b>Fund balances - beginning of year</b>						
As previously reported	2,456,223	749,768	603,543	723,181	321,658	4,854,373
Adjustment for Bay Harbor sales	-	-	(41,747)	-	-	(41,747)
<b>Fund balances - end of year</b>	<b>\$ 2,558,079</b>	<b>\$ 798,562</b>	<b>\$ 238,650</b>	<b>\$ 619,828</b>	<b>\$ 335,807</b>	<b>\$ 4,550,926</b>



**CITY OF PETOSKEY**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended December 31, 2005**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (261,700)</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation.

Expenditures for capital assets	1,657,811
Current year depreciation	(780,657)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal paid on long-term debt.	210,000
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Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	1,744
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Governmental funds report capital lease principal payments as an expenditure when paid. However, in the statement of net assets, the payment reduces a liability.	53,917
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Post closure landfill costs are recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, the total estimated post closure costs are recognized as an expense, regardless of when it is due.	5,000
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Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The net revenue (expense) of the internal service funds is included in governmental activities in the statement of activities.	258,427
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<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 1,144,542</b>
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**CITY OF PETOSKEY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 3,525,000	\$ 3,525,000	\$ 3,500,143	\$ (24,857)
Licenses and permits	10,300	10,300	6,276	(4,024)
State grants	675,700	625,700	581,737	(43,963)
Contributions from local units	42,000	42,000	51,278	9,278
Charges for services	1,806,200	1,930,700	2,061,356	130,656
Fines and forfeits	16,000	16,000	20,288	4,288
Interest and investment earnings	120,000	120,000	149,070	29,070
Other	112,400	112,400	219,265	106,865
<b>Total revenues</b>	<b>6,307,600</b>	<b>6,382,100</b>	<b>6,589,413</b>	<b>207,313</b>
<b>Expenditures</b>				
Current:				
Legislative	13,700	13,700	8,351	(5,349)
General government	1,699,400	1,699,400	1,679,756	(19,644)
Public safety	2,507,100	2,507,100	2,674,624	167,524
Public works	715,700	715,700	699,453	(16,247)
Health and welfare	45,500	45,500	18,856	(26,644)
Recreation and cultural	1,315,400	1,315,400	1,435,792	120,392
Other	400	400	64,350	63,950
Capital outlay	304,100	304,100	253,375	(50,725)
<b>Total expenditures</b>	<b>6,601,300</b>	<b>6,601,300</b>	<b>6,834,557</b>	<b>233,257</b>
Excess (deficiency) of revenues over expenditures	(293,700)	(219,200)	(245,144)	(25,944)
<b>Other financing sources (uses)</b>				
Operating transfers in	419,400	419,400	419,400	-
Operating transfers out	(128,400)	(128,400)	(128,400)	-
Transfers from component units	57,000	57,000	56,000	(1,000)
<b>Total other financing sources (uses)</b>	<b>348,000</b>	<b>348,000</b>	<b>347,000</b>	<b>(1,000)</b>
<b>Net change in fund balance</b>	<b>54,300</b>	<b>128,800</b>	<b>101,856</b>	<b>(26,944)</b>
<b>Fund balance - beginning of year</b>	<b>2,456,223</b>	<b>2,456,223</b>	<b>2,456,223</b>	<b>-</b>
<b>Fund balance - end of year</b>	<b>\$ 2,510,523</b>	<b>\$ 2,585,023</b>	<b>\$ 2,558,079</b>	<b>\$ (26,944)</b>

**CITY OF PETOSKEY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Major Street Fund**  
**For the Year Ended December 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
<b>Revenues</b>				
State grants	\$ 416,000	\$ 416,000	\$ 468,699	\$ 52,699
Interest	3,500	3,500	17,681	14,181
Total revenues	419,500	419,500	486,380	66,880
<b>Expenditures</b>				
Current:				
Routine maintenance	129,100	129,100	130,871	1,771
Winter maintenance	282,500	282,500	311,854	29,354
Traffic services	39,200	39,200	55,113	15,913
Administration	267,400	267,400	242,091	(25,309)
Capital outlay	650,000	650,000	719,597	69,597
Total expenditures	1,368,200	1,368,200	1,459,526	91,326
Excess (deficiency) of revenues over expenditures	(948,700)	(948,700)	(973,146)	(24,446)
<b>Other financing sources (uses)</b>				
Operating transfers in	650,000	650,000	650,000	-
<b>Net change in fund balance</b>	(298,700)	(298,700)	(323,146)	(24,446)
<b>Fund balance - beginning of year</b>				
As previously reported	603,543	603,543	603,543	-
Adjustment for Bay Harbor sand & salt sales	-	-	(41,747)	(41,747)
<b>Fund balance - end of year</b>	<u>\$ 304,843</u>	<u>\$ 304,843</u>	<u>\$ 238,650</u>	<u>\$ (66,193)</u>

**CITY OF PETOSKEY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Local Street Fund**  
**For the Year Ended December 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
<b>Revenues</b>				
State grants	\$ 120,000	\$ 120,000	\$ 140,551	\$ 20,551
Interest	6,000	6,000	24,606	18,606
Total revenues	126,000	126,000	165,157	39,157
<b>Expenditures</b>				
Current:				
Routine maintenance	87,600	87,600	81,680	(5,920)
Winter maintenance	145,200	145,200	146,729	1,529
Traffic services	10,600	10,600	26,942	16,342
Administration	213,500	213,500	228,111	14,611
Capital outlay	675,000	675,000	460,048	(214,952)
Total expenditures	1,131,900	1,131,900	943,510	(188,390)
Excess (deficiency) of revenues over expenditures	(1,005,900)	(1,005,900)	(778,353)	227,547
<b>Other financing sources (uses)</b>				
Operating transfers in	675,000	675,000	675,000	-
<b>Net change in fund balance</b>	(330,900)	(330,900)	(103,353)	227,547
<b>Fund balance - beginning of year</b>	723,181	723,181	723,181	-
<b>Fund balance - end of year</b>	<u>\$ 392,281</u>	<u>\$ 392,281</u>	<u>\$ 619,828</u>	<u>\$ 227,547</u>

CITY OF PETOSKEY  
Statement of Net Assets  
Proprietary Funds  
December 31, 2005

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Electric System	Water and Sewer System	Totals Current Year	
<b><u>Assets</u></b>				
<b>Current Assets</b>				
Cash	\$ 1,929,315	\$ 2,547,586	\$ 4,476,901	\$ 887,955
Investments	3,100,925	1,796,462	4,897,387	-
Receivables:				
Accounts	1,490,419	548,998	2,039,417	-
Due from other funds	10,725	(5,363)	5,362	409,337
Due from component units	-	-	-	24,193
Inventory	538,803	92,453	631,256	38,295
Prepaid expenses	-	-	-	66,311
Total current assets	<u>7,070,187</u>	<u>4,980,136</u>	<u>12,050,323</u>	<u>1,426,091</u>
<b>Noncurrent Assets</b>				
Restricted assets:				
Customer deposits	184,413	7,500	191,913	-
Sewage service covenants	-	230,274	230,274	-
Revenue bond covenants	-	2,420,683	2,420,683	-
MPPA energy restrictions	1,847,700	-	1,847,700	-
Deferred charges	-	110,998	110,998	-
MPPA working capital advance	196,720	-	196,720	-
Capital assets	17,696,338	29,512,854	47,209,192	4,350,009
Less: accumulated depreciation	<u>(7,047,661)</u>	<u>(8,117,535)</u>	<u>(15,165,196)</u>	<u>(2,571,356)</u>
Total noncurrent assets	<u>12,877,510</u>	<u>24,164,774</u>	<u>37,042,284</u>	<u>1,778,653</u>
Total assets	<u>\$19,947,697</u>	<u>\$29,144,910</u>	<u>\$49,092,607</u>	<u>\$ 3,204,744</u>

**CITY OF PETOSKEY**  
**Statement of Net Assets**  
**Proprietary Funds**  
**(Continued)**  
**December 31, 2005**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Electric System</u>	<u>Water and Sewer System</u>	<u>Totals Current Year</u>	
<b><u>Liabilities and Net Assets</u></b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 1,018,469	\$ 109,650	\$ 1,128,119	\$ 104,879
Accrued wages	3,686	3,555	7,241	815
Due to other funds	36,753	91,042	127,795	5,595
Due to other governmental units	26,353	-	26,353	-
Total current liabilities	1,085,261	204,247	1,289,508	111,289
<b>Current Liabilities (payable from restricted assets)</b>				
Current portion of revenue bonds	-	370,000	370,000	-
Accrued interest	-	233,967	233,967	-
Total current liabilities (payable from restricted assets)	-	603,967	603,967	-
<b>Noncurrent Liabilities</b>				
Payable from restricted assets:				
Customer deposits	184,413	7,500	191,913	-
Compensated absences payable	-	-	-	46,228
Revenue bonds (net of current portion, unamortized premiums and discounts, and deferred amount on refunding)	-	11,561,907	11,561,907	-
Total noncurrent liabilities	184,413	11,569,407	11,753,820	46,228
Total liabilities	1,269,674	12,377,621	13,647,295	157,517
<b>Net Assets</b>				
Invested in capital assets, net of related debt	10,648,677	9,463,412	20,112,089	1,778,653
Restricted for sewage service covenants	-	230,274	230,274	-
Restricted for revenue bond indentures	-	2,420,683	2,420,683	-
Restricted for MPPA energy expenses	1,847,700	-	1,847,700	-
Unrestricted	6,181,646	4,652,920	10,834,566	1,268,574
Total net assets	18,678,023	16,767,289	35,445,312	3,047,227
Total liabilities and net assets	\$19,947,697	\$29,144,910	\$49,092,607	\$ 3,204,744

**CITY OF PETOSKEY**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December 31, 2005**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Electric System	Water and Sewer System	Totals Current Year	
<b>Operating revenues</b>				
Charges for services	\$ 8,898,509	\$ 4,185,426	\$ 13,083,935	\$ 3,362,688
<b>Operating expenses</b>				
Purchased power	6,088,737	-	6,088,737	-
Personal services	415,153	490,695	905,848	77,598
Contractual services	836,712	1,420,808	2,257,520	2,630,501
Supplies	4,115	14,079	18,194	129,335
Materials	166,600	338,149	504,749	-
Heat, light and power	7,679	336,573	344,252	-
Depreciation	501,756	705,260	1,207,016	301,962
Rent	21,000	32,700	53,700	-
Total operating expenses	8,041,752	3,338,264	11,380,016	3,139,396
Operating income (loss)	856,757	847,162	1,703,919	223,292
<b>Nonoperating revenues</b>				
Unrestricted interest and investment earnings	160,809	73,353	234,162	18,854
Restricted interest and investment earnings	40,504	-	40,504	-
Rent	141,000	-	141,000	-
Sewage service covenant	-	89,335	89,335	-
Construction	3,452	20,483	23,935	-
Miscellaneous	14,003	-	14,003	16,282
Total nonoperating revenues	359,768	183,171	542,939	35,136
<b>Nonoperating expenses</b>				
Personal services	29,249	1,896	31,145	-
Contractual services	57,034	-	57,034	-
Supplies	9,922	-	9,922	-
Materials	4,845	-	4,845	-
Heat, light and power	31,885	-	31,885	-
Interest	-	589,451	589,451	-
Depreciation	18,622	-	18,622	-
Amortization	-	9,250	9,250	-
Other expenses	-	500	500	-
Total nonoperating expenses	151,557	601,097	752,654	-
Total nonoperating revenues (expenses)	208,211	(417,926)	(209,715)	35,136
Income (loss) before operating transfers and capital contributions	1,064,968	429,236	1,494,204	258,428
<b>Other financing sources (uses)</b>				
Operating transfers out	(517,000)	(302,400)	(819,400)	-
<b>Capital contributions</b>				
	32,107	162,865	194,972	-
<b>Change in net assets</b>	580,075	289,701	869,776	258,428
<b>Total net assets - beginning</b>				
As previously reported	18,097,948	16,477,588	34,575,536	2,730,593
Adjustments for health insurance	-	-	-	58,206
<b>Total net assets - ending</b>	\$ 18,678,023	\$ 16,767,289	\$ 35,445,312	\$ 3,047,227

**CITY OF PETOSKEY**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2005**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Electric System	Water and Sewer System	Totals Current Year	
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 8,647,993	\$ 4,070,551	\$ 12,718,544	\$ 2,937,317
Cash payments to suppliers for goods and services	(6,700,384)	(1,850,159)	(8,550,543)	(2,645,782)
Cash payments to employees for services	(218,020)	(275,444)	(493,464)	(43,923)
Cash payments to other funds for services	(660,974)	(389,269)	(1,050,243)	(181,276)
Net cash provided (used) by operating activities	1,068,615	1,555,679	2,624,294	66,336
<b>Cash flows from non-capital financing activities</b>				
Operating transfers-out to other funds	(517,000)	(302,400)	(819,400)	-
Increase (decrease) in customer deposits	13,219	2,000	15,219	-
Net cash provided (used) by non-capital financing activities	(503,781)	(300,400)	(804,181)	-
<b>Cash flows from capital and related financing activities</b>				
Acquisition and construction of capital assets	(1,731,470)	(718,184)	(2,449,654)	(254,161)
Principal paid on revenue bonds and contracts payable	-	(380,000)	(380,000)	-
Interest paid on revenue bonds and contracts payable	-	(567,472)	(567,472)	-
Capital contributed by customers	32,107	162,865	194,972	-
Net cash provided (used) by rental, construction and miscellaneous non-operating activities	25,520	107,420	132,940	16,282
Net cash provided (used) for capital and related financing activities	(1,673,843)	(1,395,371)	(3,069,214)	(237,879)
<b>Cash flows from investing activities</b>				
Purchase of Investments (net)	(1,058,000)	-	(1,058,000)	-
Interest received	214,137	116,587	330,724	18,854
Net cash provided (used) from investing activities	(843,863)	116,587	(727,276)	18,854
Net increase (decrease) in cash	(1,952,872)	(23,505)	(1,976,377)	(152,689)
<b>Cash, beginning</b>	4,066,600	5,229,548	9,296,148	1,040,644
<b>Cash, ending</b>	\$ 2,113,728	\$ 5,206,043	\$ 7,319,771	\$ 887,955
<b>Classified as:</b>				
Current assets	\$ 1,929,315	\$ 2,547,586	\$ 4,476,901	\$ 887,955
Restricted assets	184,413	2,658,457	2,842,870	-
<b>Totals</b>	\$ 2,113,728	\$ 5,206,043	\$ 7,319,771	\$ 887,955



**CITY OF PETOSKEY**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**(Continued)**  
**For the Year Ended December 31, 2005**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Electric System	Water and Sewer System	Totals Current Year	
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	\$ 856,757	\$ 847,162	\$ 1,703,919	\$ 223,292
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	501,756	705,260	1,207,016	301,962
Expenses paid via MPPA account	67,681	-	67,681	-
(Increase) decrease in accounts receivable	(250,516)	228	(250,288)	-
(Increase) decrease in inventory	(98,765)	26,566	(72,199)	219
(Increase) decrease in prepaid expenses	-	-	-	(8,105)
(Increase) decrease in due from other funds	(10,725)	-	(10,725)	(370,992)
(Increase) decrease in due from component units	-	-	-	(20,770)
Increase (decrease) in accounts payable	(34,965)	(60,244)	(95,209)	(48,197)
Increase (decrease) in accrued expenses	124	173	297	(11,897)
Increase (decrease) in due to other funds	34,260	94,037	128,297	824
Increase (decrease) in due to other governmental units	3,008	(57,503)	(54,495)	-
Total adjustments	211,858	708,517	920,375	(156,956)
Net cash provided (used) by operating activities	\$ 1,068,615	\$ 1,555,679	\$ 2,624,294	\$ 66,336

**CITY OF PETOSKEY**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**December 31, 2005**

	Employees Retirement Trust Fund	Library Endowment Trust Fund	Agency Funds
<b><u>Assets</u></b>			
Cash	\$ -	\$ 21,557	\$ 1,028,253
Investments	187,250	-	-
Receivables:			
Taxes	-	-	4,321,452
Loans	30,000	-	-
Other	-	-	6,141
	<u>\$ 217,250</u>	<u>\$ 21,557</u>	<u>\$ 5,355,846</u>
Total assets			
<b><u>Liabilities and Net Assets</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 5,646	\$ 9,462
Due to other funds	-	-	414,830
Due to component unit	-	-	61,456
Due to other governmental units	-	-	4,870,098
	<u>-</u>	<u>5,646</u>	<u>5,355,846</u>
Total liabilities			
<b>Net Assets</b>			
Held in trust for pension benefits and other purposes	<u>217,250</u>	<u>15,911</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 217,250</u>	<u>\$ 21,557</u>	<u>\$ 5,355,846</u>

CITY OF PETOSKEY  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended December 31, 2005

	Employees Retirement Trust Fund	Library Endowment Trust Fund
	<u>                    </u>	<u>                    </u>
<b><u>Additions</u></b>		
Contributions		
Employer	\$ 13,415	\$ -
Private donations	<u>-</u>	<u>67,574</u>
Total contributions	<u>13,415</u>	<u>67,574</u>
Net investment earnings		
Interest and unrealized gains/losses	<u>6,710</u>	<u>2,540</u>
Total additions	<u>20,125</u>	<u>70,114</u>
<b><u>Deductions</u></b>		
Miscellaneous expenses	-	63,850
Administrative expenses	35	-
Transfers out	<u>-</u>	<u>69,360</u>
Total deductions	<u>35</u>	<u>133,210</u>
<b>Change in net assets</b>	20,090	(63,096)
<b>Net assets - beginning of year</b>		
As previously reported	167,160	79,007
Employee loan receivable	<u>30,000</u>	<u>-</u>
<b>Net assets - end of year</b>	<u><u>\$ 217,250</u></u>	<u><u>\$ 15,911</u></u>

**CITY OF PETOSKEY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Petoskey was incorporated November 4, 1924, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds and similar component units in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the City of Petoskey:

**REPORTING ENTITY**

These financial statements present the City (the primary government) and its component units. As defined by GASBS No. 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Blended Component Unit**

**City of Petoskey Building Authority** – The City of Petoskey Building Authority is governed by a three member board appointed by the City of Petoskey. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to provide financing for the construction of buildings, parking lots, recreational facilities and to acquire the necessary sites for such facilities. Separate financial statements for the City of Petoskey Building Authority may be obtained by contacting the City's Director of Finance, 101 East Lake Street, Petoskey, Michigan 49770.

**Discretely Presented Component Units**

**Tax Increment Finance Authority** – The Tax Increment Finance Authority, which was established pursuant to the provisions of Public Act 450 of 1980, as amended, is governed by an eight-person board appointed by the City Council. The Authority may issue debt subject to limitations set forth in the Act and is funded by a specified annual property tax capture of a portion of all units' levies which may only be used for activities within the tax increment finance district. Separate financial statements for the Tax Increment Finance Authority are not issued.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Discretely Presented Component Units – Continued

**Library** - The City Library, which was established pursuant to the provisions of Public Act 164 of 1877, as amended, and City charter as adopted on August 7, 1984, is governed by a five-person commission appointed by the mayor. The commission may not issue debt and the tax levy is subject to approval by the City Council. Separate financial statements for the City Library are not issued.

**Downtown Management Board (Downtown Management/Parking)** - The Downtown Management Board was established in February of 1994 pursuant to the provisions of Public Act 120 of 1961. By a resolution dated February 1, 2000, responsibilities for operating and maintaining the City's downtown area parking system and facilities were transferred to the Downtown Management Board. Separate financial statements for the Downtown Management Board are not issued.

#### **BASIC FINANCIAL STATEMENTS – OVERVIEW**

The City of Petoskey's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

#### **BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Internal service funds are consolidated into the governmental column when presented at the government-wide level. This is because the principal users of the internal service are the City's governmental activities. The net profit/loss in the internal service funds is allocated to the functional activity (public safety, public works, etc.) based upon usage.

In the government-wide Statement of Net Assets, both the governmental and business-type activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS – CONTINUED

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business-type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

#### Governmental Funds

The measurement focus of the governmental funds in the Fund Financial Statements is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City:

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED**

**Downtown Management Fund** – To account for services and programs provided to the Central Business District. Financing is provided by an annual special assessment on property located within the District, which may only be used for such activities.

**Debt Service Funds**

**Special Assessment, Building Authority Downtown Improvement and Building Authority Refunding Bonds Debt Funds** – To account for the payment of interest and principal on long-term bonds.

**Proprietary Funds**

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the major proprietary funds of the City:

**Electric Fund** – The Electric Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing electricity to the general public are recovered through user charges.

**Water and Sewer Fund** – The Water and Sewer Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water and sewer services to the general public are recovered through user charges.

In addition, the City reports the following non-major proprietary funds:

**Motor Vehicle and Equipment Fund** – The Motor Vehicle and Equipment Fund is an internal service fund. This fund accounts for the cost of acquiring, maintaining and providing vehicle and equipment usage to various City departments.

**Employee Fringe Benefit Fund** – The Employee Fringe Benefit Fund is an internal service fund. This fund accounts for City employee fringe benefits required by employment agreements and federal and state law.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing/delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Fiduciary Funds**

The fiduciary funds are used to account for assets held by the City in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. All trust funds employ the same economic resources measurement focus and accrual basis of accounting, as do proprietary funds. Agency funds use the accrual basis of accounting, however, report only assets and liabilities.



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED**

**Library Endowment Trust Fund** – The Library Endowment Trust Fund is an expendable trust fund. This fund accounts for donations received by the City as trustee and the related disposition of such amounts in accordance with the various trust agreements.

**Employees Retirement Trust Fund** – The Employees Retirement Trust Fund accounts for the accumulation of resources for pension benefit payments to qualified management employees.

**Agency Fund** – The Agency Fund accounts for the collection and payments of property tax levies and payroll withholdings.

**BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds, pension trust funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Unbilled Water and Sewer and Electric Fund utility service receivables are recorded at year-end.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

**Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

**Inventory**

Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory in the Special Revenue Funds consist of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased. Fund balance has been reserved for inventory in governmental funds.



## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

##### Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

##### Capital Assets

Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the City when the initial individual costs are equal to or greater than the following amounts:

<u>Asset Type</u>	<u>Amount</u>
Land	\$ 1
Equipment	5,000
Buildings	50,000
Infrastructure	100,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	20 to 60 years
Building Improvements	15 to 30 years
Land Improvements	10 to 20 years
Water and Sewer Lines	50 to 75 years
Streets, Curbs and Gutters	10 to 30 years
Sidewalks	20 years
Vehicles	3 to 5 years
Furniture and Equipment	10 to 20 years
Office Equipment	5 to 7 years

##### Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

##### Compensated Absences (Personal, Vacation and Sick Time)

All employees are entitled to 56 hours of personal time starting on December 1. The City reimburses all employees for any unused portion, on an annual basis. Vacation days not used during the year may not be accumulated. Unpaid sick time accrued represents sick time accumulated before December 1, 1990 and payable to eligible employees on termination. Due to contract years differing from the City's fiscal year, unpaid vacation time represents unused, but not accumulated, vacation time.

Accumulated unpaid vacation, sick pay, and other employee benefit amounts are provided for on a timely basis by accrual, when incurred by all funds, in the Employee Fringe Benefit Fund (a proprietary fund using the accrual basis of accounting). All vacation, sick pay, and other employee benefit amounts accrue when earned in the government-wide and proprietary fund financial statements. Sick and vacation pay are recognized in the governmental financial statements when a payment is made to the Fringe Benefit Fund.

##### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### COMPARATIVE DATA

Comparative data for the prior year is not included in the City's financial statements.

### NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the City except for the pension trust fund and the agency fund. Budgetary control is legally maintained at the fund level.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first Council meeting in November, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at City Hall to obtain taxpayer comments.
3. Prior to January 1, the fund budgets are legally enacted through passage of resolutions.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures/expenses of any fund must be approved by the City Council.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgeted amounts are as originally adopted, or as amended, by the City Council.
7. Encumbrances, which are commitments related to unperformed contracts for goods or services, lapse at year-end and are re-appropriated as part of the subsequent year's budget.

#### Excess of Expenditures Over Appropriations in Budgeted Funds

The City is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. During the year, the City incurred expenditures which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Amended Budget</u>	<u>Amount of Expenditures</u>	<u>Variance</u>
General Fund	\$6,729,700	\$6,962,957	\$ 233,257
General Street Fund	643,900	664,963	21,063
Downtown Management	91,000	96,066	5,066

### NOTE 3: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City's deposits and investment policy are in accordance with statutory authority.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 3: CASH AND INVESTMENTS – CONTINUED**

**Cash Deposits**

At December 31, 2005, the carrying amount of the City's deposits was \$13,716,404 and the bank balance was \$14,753,963.

Pooling of Cash - The City pools cash to maximize its investment return.

<u>Fund</u>	<u>Pooled Cash</u>
<b>Primary Government</b>	
General	\$ 1,814,304
Major street	286,380
Local street	645,781
Right-of-way improvement	652,390
Electric system	22,806
Water and sewer system	5,206,043
Other nonmajor governmental funds	154,046
Internal service funds	<u>887,955</u>
Total	<u>9,669,705</u>
<b>Component Units</b>	
Library	389,029
Other nonmajor component units	<u>509,572</u>
Total	<u>898,601</u>
<b>Fiduciary Funds</b>	
Library endowment trust fund	21,557
Agency funds	<u>1,028,253</u>
Total	<u>1,049,810</u>
Total pooled cash	11,618,116
Cash not held in pooled accounts:	
Primary government	2,091,872
Component units	<u>6,416</u>
Total cash	<u><u>\$ 13,716,404</u></u>
Unrestricted cash (primary government)	\$ 8,918,707
Unrestricted cash (component units)	905,017
Unrestricted cash (fiduciary funds)	1,028,253
Restricted cash (primary government)	2,842,870
Restricted cash (fiduciary funds)	<u>21,557</u>
Total cash	<u><u>\$ 13,716,404</u></u>

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 3: CASH AND INVESTMENTS - CONTINUED

### Investments

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy limits deposits to Certificates of Deposit (CDs), savings accounts with banks, savings and loan associations, and credit unions which are insured with the applicable federal agency. As of December 31, 2005, \$14,553,963 of the City's bank balance of \$14,753,963 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$14,553,963
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As of December 31, 2005, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of Deposit	\$ 983,179	2.92
U.S. Treasuries	4,005,905	7.02
Federal National Mortgage Association	587,170	10.46
MPPA Investment Pool	1,800,999	7.38
Mutual fund	187,250	3.44
Total fair value	<u>\$ 7,564,503</u>	
Portfolio weighted average maturity		6.65

Many of the above investments, including CDs and bonds, are presently callable or callable prior to maturity.

*Credit Risk.* State law limits investments in bonds, securities and other obligations of the United States or an agency or instrumentality of the United States, state obligations or obligations of any of its political subdivisions (rated as investment grade by not less than 1 standard rating service), investment pools organized under the local government investment pool act, mutual funds, U.S. or agency repurchase agreements, bankers' acceptances of United States banks, and commercial paper (rated to the top 2 ratings at the time of purchase established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase). The City's policy does not further limit its investment choices. Moody's Investor Service rated the City's investments in the Federal National Mortgage Association AAA. Moody's rated the City's mutual fund investments Aa1. There is no regulatory oversight of the MPPA Investment Pool and no overall credit quality rating of the pool.

*Concentration of Credit Risk.* The City places no limit on the amount the district may invest in any one issuer. More than 5 percent of the district's investments are in a Flagstar Bank Certificate of Deposit and the Federal National Mortgage Association. These investments are 6.34% and 7.76%, respectively, of the City's total investments.

*Interest Rate Risk.* The City does not have a formal investment policy that limits investor maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of July 1 on the State taxable valuation of property in the City as of the preceding December 31. The City bills and collects its own property taxes and also collects taxes for other governmental units. Collection of other governmental units' taxes and remittance of them to the units are accounted for in the Agency Fund. Property taxes are recognized as revenue in the year for which they are levied.

The City is permitted by charter to levy taxes, subject to State Headlee and Truth in Taxation provisions, up to \$10 per \$1,000 of taxable valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on general obligation long-term debt. The City is also permitted by charter to levy taxes up to \$5 per \$1,000 of taxable valuation for right-of-way improvements. The City is permitted by state law to levy up to \$1 per \$1,000 of taxable valuation for the public library and \$2 per \$1,000 of taxable valuation for refuse collection. If approved by a majority of the voters, the City may increase the tax levied by an additional \$1 per \$1,000 of taxable valuation for the public library. The 2005 State taxable valuation of the City of Petoskey totaled \$484,703,419.

The tax rates for the year-ended December 31, 2005, were as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	7.6707 per \$1,000
Right-of-way improvements	3.9502 per \$1,000
Library	.8600 per \$1,000
Library (additional, approved by voters)	.9541 per \$1,000
Refuse collection	.5000 per \$1,000

## NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The interfund balances within the primary government are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 334,071	\$ 255,371
Right-of-Way Improvement Fund	137,261	-
Major Street Fund	811	94,302
Local Street Fund	-	41,016
Electric Fund	10,725	36,753
Water and Sewer Fund	-	96,405
Other Nonmajor Governmental Funds	56,372	4,306
Internal Service Funds	409,336	5,594
Fiduciary Funds	-	414,829
	<u>\$ 948,576</u>	<u>\$ 948,576</u>

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 5: INTERFUND RECEIVABLES AND PAYABLES – CONTINUED

The interfund balances between the primary government and the component units are as follows:

	Interfund Receivable	Interfund Payable
Library Fund	\$ 61,456	\$ 24,193
Other Nonmajor Component Units	-	28,288
Other Nonmajor Governmental Funds	28,288	-
Internal Service Funds	24,193	-
Fiduciary Funds	-	61,456
	<u>\$ 113,937</u>	<u>\$ 113,937</u>

The interfund balances are mainly for property taxes, material and inventory usage, building rent, fringe benefits, and equipment rent.

## NOTE 6: INTERFUND TRANSFERS

Operating transfers within the primary government are as follows:

	Transfer In	Transfer Out
General Fund	\$ 419,400	\$ 128,400
Right-of-Way Improvement Fund	-	1,637,022
Major Street Fund	650,000	-
Local Street Fund	675,000	-
Electric Fund	-	517,000
Water and Sewer Fund	-	302,400
Other Nonmajor Governmental Funds	840,422	-
	<u>\$ 2,584,822</u>	<u>\$ 2,584,822</u>

Operating transfers between the primary government and the component units are as follows:

	Transfer In	Transfer Out
Other Nonmajor Comp. Units	\$ -	\$ 164,288
General Fund	56,000	-
Other Nonmajor Governmental Funds	108,288	-
	<u>\$ 164,288</u>	<u>\$ 164,288</u>

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 6: INTERFUND TRANSFERS – CONTINUED

The operating transfers are mainly for street improvements, debt service and general City operations. Enterprise fund payments in lieu of taxes, classified as transfers to the General Fund above, were as follows:

Electric Fund	\$ 117,000
Water and Sewer Fund	302,400

A one-time transfer of \$28,288 from the Downtown Management/Parking Fund to the Downtown Management Fund was a reimbursement for wayfinding-signage project costs.

Operating transfers between the component units and the fiduciary funds are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Library Fund	\$ 69,360	\$ -
Library Endowment Trust Fund	<u>-</u>	<u>69,360</u>
	<u>\$ 69,360</u>	<u>\$ 69,360</u>

The transfer was to assist with library construction costs.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 7: CAPITAL ASSETS**

Capital asset activity of the City's primary government for the current year was as follows:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 1,887,069	\$ -	\$ -	\$ 1,887,069
Capital assets being depreciated:				
Land improvements	522,363	106,273	-	628,636
Buildings	3,942,846	-	-	3,942,846
Equipment	5,957,336	313,729	(1,134,262)	5,136,803
Infrastructure	15,115,098	1,491,970	-	16,607,068
Subtotal	25,537,643	1,911,972	(1,134,262)	26,315,353
Less accumulated depreciation:				
Land improvements	(157,183)	(34,051)	-	(191,234)
Buildings	(1,529,588)	(99,511)	-	(1,629,099)
Equipment	(3,750,150)	(340,771)	1,134,262	(2,956,659)
Infrastructure	(5,593,279)	(608,286)	-	(6,201,565)
Subtotal	(11,030,200)	(1,082,619)	1,134,262	(10,978,557)
Net capital assets being depreciated	14,507,443	829,353	-	15,336,796
Governmental activities net capital assets	\$ 16,394,512	\$ 829,353	\$ -	\$ 17,223,865

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 7: CAPITAL ASSETS – CONTINUED**

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 837,856	\$ -	\$ -	\$ 837,856
Capital assets being depreciated:				
Buildings	16,898,152	-	-	16,898,152
Utility system improvements	26,029,418	2,740,043	-	28,769,461
Equipment	703,723	-	-	703,723
Subtotal	43,631,293	2,740,043	-	46,371,336
Less accumulated depreciation:				
Buildings	(5,144,083)	(453,389)	-	(5,597,472)
Utility system improvements	(8,113,508)	(759,855)	-	(8,873,363)
Equipment	(681,967)	(12,395)	-	(694,362)
Subtotal	(13,939,558)	(1,225,639)	-	(15,165,197)
Net capital assets being depreciated	29,691,735	1,514,404	-	31,206,139
Business-type activities net capital assets	<u>\$ 30,529,591</u>	<u>\$ 1,514,404</u>	<u>\$ -</u>	<u>\$ 32,043,995</u>

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 7: CAPITAL ASSETS – CONTINUED

Capital asset activity of the City's component units for the current year was as follows:

Component Units	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets being depreciated:				
Land Improvements	\$ -	\$ 102,360	\$ -	\$ 102,360
Buildings	5,282,672	595,919	-	5,878,591
Equipment	632,635	-	-	632,635
Books	920,884	26,048	-	946,932
Subtotal	6,836,191	724,327	-	7,560,518
Less accumulated depreciation:				
Land Improvements	-	(2,580)	-	(2,580)
Buildings	(322,244)	(153,048)	-	(475,292)
Equipment	(120,244)	(31,632)	-	(151,876)
Books	(530,959)	(28,695)	-	(559,654)
Subtotal	(973,447)	(215,955)	-	(1,189,402)
Component units' net capital assets	\$ 5,862,744	\$ 508,372	\$ -	\$ 6,371,116

Depreciation expense was charged to the primary government as follows:

### Governmental Activities

Unallocated	\$ 780,657
internal service fund capital assets consolidated with the governmental activities	301,962
Total governmental activities	\$ 1,082,619

### Business-type Activities

Water and sewer	\$ 705,261
Electric	520,378
Total business-type activities	\$ 1,225,639

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 7: CAPITAL ASSETS – CONTINUED

### Construction Commitments

The City has active construction projects at year-end. The projects include:

	<u>Project Estimates</u>	<u>Expended to Dec. 31, 2005</u>	<u>Committed</u>
West Lake Street vicinity improvements	\$ 3,101,079	\$ 2,709,206	\$ 391,873
Howard Street - Waukazoo Avenue alley electric work	142,351	-	142,351
Charlevoix Avenue electric work	1,270,708	1,190,992	79,716
Bay Harbor traffic signal engineering services	<u>49,999</u>	<u>15,988</u>	<u>34,011</u>
Total construction commitments	<u>\$ 4,564,137</u>	<u>\$ 3,916,186</u>	<u>\$ 647,951</u>

At year-end, all construction in progress amounts are capitalized.

### Proprietary Fund Type Property, Plant and Equipment

Proprietary fund type property, plant and equipment at December 31, 2005 are summarized as follows:

	<u>Enterprise</u>	<u>Internal Service</u>
Land	\$ 837,856	\$ -
Buildings	16,898,152	11,011
Utility system improvements	28,769,459	-
Equipment	<u>703,723</u>	<u>4,338,999</u>
Total	47,209,190	4,350,010
Less: accumulated dep.	<u>(15,165,197)</u>	<u>(2,571,356)</u>
Net	<u>\$ 32,043,993</u>	<u>\$ 1,778,654</u>

## NOTE 8: CAPITAL LEASE

On June 10, 2003, the City entered into a lease agreement as lessee for financing the acquisition of parking meters. The lease agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease/purchase was payable over a two year period at the rate of 2.59%, in equal installments of \$56,021 per year, through the year 2005.

Assets in the amount of \$107,835, with accumulated depreciation of \$16,175, were recorded within the Governmental Activities section of the government-wide Statement of Net Assets.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### **NOTE 9: DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In complying with the amended Section 457 requirements, these assets are for the exclusive benefit of participants and not subject to the claims of the City's general creditors. As such, they are not included in an agency fund of the City.

### **NOTE 10: DEFINED CONTRIBUTION PLAN**

The City provides pension benefits for management employees as designated by City Council through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The City's contributions for each employee (and interest allocated to each employee's account) are fully vested immediately.

The City's contributions were calculated using the eligible base salary amount of \$88,724. As established by City Council and governed by Federal regulations, the City made the required 15.12% contribution. Contributions for the year totaled \$13,415.

At December 31, 2005, the City had \$271,250 within the Employees Retirement Trust Fund.

### **NOTE 11: DEFINED BENEFIT PENSION PLAN**

#### **Plan Description**

The City of Petoskey participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City of Petoskey. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal, Lansing, Michigan 48917.

#### **Funding Policy**

There are no contribution requirements for plan members. The City is required to contribute all amounts necessary to fund the system using the actuarial basis specified by statute. The contribution requirements of plan members and the City are established and may be amended by the MERS board.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 11: DEFINED BENEFIT PENSION PLAN – CONTINUED

#### Annual Pension Cost

For the year-ended 2005, the City's required contributions were \$521,868, while their actual contributions were \$535,753. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses); and (b) projected salary increases of 4.5% per year (plus a percentage based on an age-related scale to reflect merit, longevity, and promotional pay increases). Both (a) and (b) included an inflation component of 3% to 4%. The actuarial value of the City's assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liabilities are amortized by a level percent of payroll contributions over a 30 year period.

#### Three-Year Trend Information for the City of Petoskey

<u>Fiscal Year-ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12-31-03	404,128	100%	-
12-31-04	454,518	100%	-
12-31-05	521,868	103%	-

Additional trend information may be found within the Required Supplemental Information section of the financial statements.

### NOTE 12: OTHER POST-EMPLOYMENT BENEFITS

The City allows all retirees and their spouses to continue to participate in the City's health insurance plan.

The City pays \$1,200 per year for each electing retiree. The remaining cost is the individual retiree's responsibility. As of December 31, 2005, there were 37 participants. The City's actual expense was \$47,200.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 13: LONG-TERM DEBT**

The following is a summary of the City's long-term debt transactions for the year-ended December 31, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental Activities</b>					
Bonds and notes payable:					
General obligation debt	\$ 1,150,000	\$ -	\$ (210,000)	\$ 940,000	\$ 155,000
Other liabilities:					
Capital lease	53,917	-	(53,917)	-	-
Compensated absences	58,191	5,101	(17,065)	46,227	-
Landfill postclosure costs	90,000	-	(5,000)	85,000	-
Total governmental activities long-term liabilities	<u>\$ 1,352,108</u>	<u>\$ 5,101</u>	<u>\$ (285,982)</u>	<u>\$ 1,071,227</u>	<u>\$ 155,000</u>
<b>Business-type Activities</b>					
Bonds and notes payable:					
Revenue obligation debt	<u>\$ 12,570,000</u>	<u>\$ -</u>	<u>\$ (380,000)</u>	<u>\$ 12,190,000</u>	<u>\$ 370,000</u>
<b>COMPONENT UNIT</b>					
General obligation debt	<u>\$ 4,250,000</u>	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ 4,200,000</u>	<u>\$ 50,000</u>

Long-term liabilities payable at December 31, 2005 is composed of the following individual issues:

**General Obligation (Governmental Activities):**

\$965,000, 1999 City of Petoskey Building Authority Refunding serial bonds due in annual installments of \$95,000 to \$105,000 through October 1, 2009, interest at 4.50 to 4.75 percent.	\$ 395,000
\$800,000, 1999 Building Authority Downtown Improvement bonds due in annual installments of \$50,000 to \$75,000 through October 1, 2014, interest at 4.50 to 5.00 percent.	<u>545,000</u>
Total governmental activities general obligation debt	940,000
Compensated absences	46,227
Estimated liability for landfill post closure costs	<u>85,000</u>
Total governmental activities long-term liabilities	<u>\$1,071,227</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 13: LONG-TERM DEBT – CONTINUED**

**Revenue Obligation (Business-type Activities):**

\$7,500,000, 2001 Water and Sewer bonds due in annual installments of \$50,000 to \$600,000 through February 1, 2026, interest at 4.00 to 5.00 percent. \$ 7,350,000

\$5,505,000, 2002 Water and Sewer Refunding bonds due in annual installments of \$320,000 to \$475,000 through February 1, 2017, interest at 3.00 to 5.25 percent. 4,840,000

Total business-type activities revenue obligation debt \$ 12,190,000

**General Obligation (Component Unit)**

\$4,300,000 2003 Building Authority Library Improvement bonds due in annual installment of \$50,000 to \$300,000 through October 1, 2028, interest at 2.50 to 4.40 percent. \$ 4,200,000

The annual requirements to amortize all general and revenue obligation bonds outstanding, as of December 31, 2005, are as follows:

**Annual Requirements to Amortize Outstanding Bonds  
December 31, 2005**

Year Ending December 31	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 155,000	\$ 44,952	\$ 370,000	\$ 555,722	\$ 50,000	\$ 162,375
2007	150,000	37,901	465,000	542,173	100,000	161,125
2008	150,000	30,925	560,000	524,124	100,000	158,625
2009	150,000	23,876	555,000	503,257	125,000	156,125
2010	60,000	16,750	595,000	480,987	125,000	152,812
2011 - 2015	275,000	35,250	3,405,000	1,988,260	750,000	700,062
2016 - 2020	-	-	2,840,000	1,127,849	950,000	547,288
2021 - 2025	-	-	2,800,000	514,375	1,150,000	341,900
2026 - 2030	-	-	600,000	15,000	850,000	77,000
Total	<u>\$ 940,000</u>	<u>\$ 189,654</u>	<u>\$ 12,190,000</u>	<u>\$ 6,251,747</u>	<u>\$ 4,200,000</u>	<u>\$ 2,457,312</u>

**NOTE 14: LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS**

An agreement with the State of Michigan requires that the City of Petoskey perform monitoring functions at the landfill site for 30 years after closure. A liability is being recognized based on the future post closure costs that will be incurred over the 17 years remaining on the agreement. The estimated total current cost of the landfill post closure care, \$85,000, is based on the amount that would be paid if the services to monitor the landfill were acquired as of December 31, 2005. However, the actual cost of post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.



**NOTE 15: RESERVED FUND BALANCES/RESTRICTED NET ASSETS**

**Major Governmental Funds**

Reserved for marina – The General Fund has \$439,285 reserved for marina operations and improvements.

Reserved for refuse – The General Fund has \$29,253 reserved for refuse collection expenditures.

**Nonmajor Governmental Funds**

Reserved for debt service – The Debt Service Funds have \$63,084 reserved for debt service and related costs.

Reserved for inventory – The General Street Fund has \$98,127 reserved for inventory.

**Major Proprietary Funds**

Restricted for MPPA energy expenses – The Electric Fund has \$1,847,700 restricted for MPPA energy expenses.

Restricted for revenue bond indentures – In accordance with revenue bond indentures, the Water and Sewer System Fund has \$2,420,683 of its net assets restricted for this specific purpose.

Restricted for sewage service agreement covenants – The City has \$230,274 restricted for repair and replacement of sewage treatment facilities.

**Fiduciary Funds**

Restricted for pension benefits and other purposes – The Employees Retirement Trust Fund and the Library Endowment Trust Fund have \$217,250 and \$15,911, respectively, restricted for employee pension benefits and library costs.

**Component Units**

Restricted for Tax Increment Finance Authority – The Tax Increment Finance Authority has \$383,863 restricted for use within the TIFA district.

When both restricted and unrestricted resources are available to cover an expense incurred for restricted purposes, restricted resources are utilized first.

**NOTE 16: COMMITMENTS**

**Insurance Commitments**

The City self-insures its workmen's compensation and unemployment compensation liabilities through their participation in workmen's compensation and unemployment compensation self-insurance groups.

**Entitlement Commitments**

During 1979 and 1982, the Michigan Public Power Agency (MPPA), of which the City is a member, acquired an ownership interest in the Consumers Power Campbell No. 3 plant, the Detroit Edison Belle River Unit and other related assets. During 2001, the MPPA, acquired an ownership interest in the CT Project No. 1.

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 16: COMMITMENTS – CONTINUED

The City's entitlement share of the Campbell No. 3 and Belle River unit generating capacities are 1470 (KW) and 4137 (KW), respectively. The City's entitlement share of the CT Project No. 1 generating capacity is 4,392 (KW).

The entitlements specify minimum annual payments on a "take-or-pay" basis for the generation and transmission capabilities of the units as follows:

Year Ending December 31	Campbell No. 3	Belle River Unit	CT Project No. 1	Total
2006	\$ 146,376	\$ 508,602	\$ 241,077	\$ 896,055
2007	146,481	508,672	241,329	896,482
2008	146,446	508,608	241,091	896,145
2009	119,402	508,617	241,155	869,174
2010	120,081	508,693	241,500	870,274
2011 - 2015	241,118	2,543,253	1,206,018	3,990,389
2016 - 2020	-	1,017,337	1,206,251	2,223,588
2021 - 2025	-	-	1,206,311	1,206,311
2026	-	-	241,194	241,194
Total minimum payments	<u>\$ 919,904</u>	<u>\$ 6,103,782</u>	<u>\$ 5,065,926</u>	<u>\$ 12,089,612</u>

There is a possibility of refunds or subsidy payments to the City due to past fuel overcharges. However, since the amounts are unknown at this time, there are no provisions made in the financial statements.

### Other Commitments

The City has a contract with Landmark Appraisal Company to appraise and inventory all real property for the 2006 property tax assessment roll. As of year-end, approximately \$10,000 of the \$222,000 agreement remains to be fulfilled.

On December 28, 2004, the City signed an agreement with Lake Street Petoskey Associates, L.L.C. (the Developer) for the purchase of a lower-level parking deck (the Project) for \$6,252,042. The City will receive a \$970,000 credit against the purchase price for the transfer of City property on the Project site to the Developer. The purchase price is due within 45 days of the Project's completion, which is to be prior to July 30, 2008. Financing for the Project is to be provided via a Downtown Development Authority Tax-Increment Financing Plan that the city council approved on December 27, 2004. The plan permits financing of up to \$10,600,000 of bonded indebtedness through 2036.

## NOTE 17: CONTINGENCIES

The General Fund is contingently liable for the Water and Sewer System revenue bonds. The General Fund is obligated only if revenues of the Water and Sewer System Fund would be insufficient to meet its debt service requirements.

**NOTE 18: RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City belongs to the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The City pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the City could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

**NOTE 19: PRIOR PERIOD ADJUSTMENTS**

The Major Street Fund adjustment is for the write-off of prior year receivables related to street maintenance in Bay Harbor.

The Employee Fringe Benefit Fund adjustment relates to health insurance expenses overstated in 2004.

The Employees Retirement Trust Fund adjustment relates to a 2001 employee loan that remains outstanding at year-end.

In the Government-wide Statement of Net Assets, the cost of sidewalks (expensed in prior periods) were capitalized. The adjustment includes depreciation expense through December 31, 2004.

**NOTE 20: SUBSEQUENT EVENTS**

At the April 3, 2006 city council meeting, the council authorized signing contracts for amounts approximating \$2.1 million. These contracts are for various street improvements and electrical upgrades, fire protection equipment and vehicles, Bay Harbor entrance modifications, and other miscellaneous items.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF PETOSKEY**  
**Required Supplemental Information**  
**Defined Benefit Pension Plan**  
**Trend Information**  
**For the Year Ended December 31, 2005**

Schedule of Funding Progress  
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 11,175	\$ 12,748	\$ 1,573	88%	\$ 2,687	59%
12/31/02	11,351	13,983	2,632	81%	3,060	86%
12/31/03	12,032	15,316	3,284	79%	3,219	102%
12/31/04	12,659	15,717	3,058	81%	3,069	100%
12/31/05	*	*	*	*	*	*

\* Information not currently available.

Schedule of Employer Contributions  
(Dollar amounts in thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
12/31/01	\$ 334,522	100%
12/31/02	349,942	100%
12/31/03	404,128	100%
12/31/04	454,518	100%
12/31/05	521,868	103%

## OTHER SUPPLEMENTAL INFORMATION

CITY OF PETOSKEY  
Combining Balance Sheet  
Nonmajor Governmental Funds  
Special Revenue Funds  
December 31, 2005

<u>Assets</u>	General Street	Downtown Management	Total
Cash	\$ 54,904	\$ 36,058	\$ 90,962
Receivables:			
Special assessments	-	33,047	33,047
Accounts	28,261	-	28,261
Due from other funds	55,274	1,098	56,372
Due from component units	-	28,288	28,288
Inventory, at cost	98,127	-	98,127
	<hr/>	<hr/>	<hr/>
Total assets	\$ 236,566	\$ 98,491	\$ 335,057
	<hr/>	<hr/>	<hr/>
<u>Liabilities and Fund Balances</u>			
<b>Liabilities</b>			
Accounts payable	\$ 56,467	\$ 1,561	\$ 58,028
Due to other funds	4,306	-	4,306
	<hr/>	<hr/>	<hr/>
Total liabilities	60,773	1,561	62,334
	<hr/>	<hr/>	<hr/>
<b>Fund balances</b>			
Reserved for inventory	98,127	-	98,127
Unreserved	77,666	96,930	174,596
	<hr/>	<hr/>	<hr/>
Total fund balances	175,793	96,930	272,723
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 236,566	\$ 98,491	\$ 335,057
	<hr/>	<hr/>	<hr/>

**CITY OF PETOSKEY**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Special Revenue Funds**  
**For the Year Ended December 31, 2005**

	General Street	Downtown Management	Total
<b>Revenues</b>			
Special assessments	\$ -	\$ 57,561	\$ 57,561
Interest	6,656	2,592	9,248
Other	14,132	5,359	19,491
	<u>20,788</u>	<u>65,512</u>	<u>86,300</u>
Total revenues			
<b>Expenditures</b>			
Current:			
Public works	336,650	48,556	385,206
Capital outlay	328,313	47,510	375,823
	<u>664,963</u>	<u>96,066</u>	<u>761,029</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(644,175)</u>	<u>(30,554)</u>	<u>(674,729)</u>
<b>Other financing sources (uses)</b>			
Operating transfers in	675,000	-	675,000
Transfers from component units	-	28,288	28,288
	<u>675,000</u>	<u>28,288</u>	<u>703,288</u>
Total other financing sources (uses)			
Net change in fund balances	30,825	(2,266)	28,559
Fund balances - beginning of year	<u>144,968</u>	<u>99,196</u>	<u>244,164</u>
Fund balances - end of year	<u>\$ 175,793</u>	<u>\$ 96,930</u>	<u>\$ 272,723</u>



CITY OF PETOSKEY  
Combining Balance Sheet  
Nonmajor Governmental Funds  
Debt Service Funds  
December 31, 2005

	Special Assessment Bonds Debt	Building Authority Downtown Improvement Bonds Debt	Building Authority Refunding Bonds Debt	Total
<b>Assets</b>				
Cash	\$ -	\$ 13,849	\$ 49,235	\$ 63,084
<b>Fund balances</b>				
Reserved for debt service	\$ -	\$ 13,849	\$ 49,235	\$ 63,084

**CITY OF PETOSKEY**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Debt Service Funds**  
**For the Year Ended December 31, 2005**

	Special Assessment Bonds Debt	Building Authority Downtown Improvement Bonds Debt	Building Authority Refunding Bonds Debt	Total
<b>Revenues</b>				
Interest	\$ 1,401	\$ 556	\$ 3,298	\$ 5,255
<b>Expenditures</b>				
Principal	55,000	50,000	105,000	210,000
Interest and fiscal charges	2,860	28,947	23,280	55,087
Total expenditures	57,860	78,947	128,280	265,087
Excess (deficiency) of revenues over expenditures	(56,459)	(78,391)	(124,982)	(259,832)
<b>Other financing sources (uses)</b>				
Operating transfers in	37,022	-	128,400	165,422
Transfers from component units	-	80,000	-	80,000
Total other financing sources (uses)	37,022	80,000	128,400	245,422
<b>Net change in fund balances</b>	(19,437)	1,609	3,418	(14,410)
<b>Fund balances - beginning of year</b>	19,437	12,240	45,817	77,494
<b>Fund balances - end of year</b>	\$ -	\$ 13,849	\$ 49,235	\$ 63,084

CITY OF PETOSKEY  
Statement of Net Assets  
Nonmajor Component Units  
December 31, 2005

	TIFA	Downtown Management/ Parking	Total
<u>Assets</u>			
<b>Current Assets</b>			
Cash	\$ 383,863	\$ 132,000	\$ 515,863
<b>Noncurrent Assets</b>			
Capital assets	461,017	-	461,017
Less: accumulated depreciation	(31,070)	-	(31,070)
Total noncurrent assets	429,947	-	429,947
Total assets	<u>\$ 813,810</u>	<u>\$ 132,000</u>	<u>\$ 945,810</u>
<b><u>Liabilities and Net Assets</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ -	\$ 10,048	\$ 10,048
Due to primary government	-	28,288	28,288
Total liabilities	-	38,336	38,336
<b>Net Assets</b>			
Invested in capital assets, net of related debt	429,947	-	429,947
Restricted for:			
TIFA expenses	383,863	-	383,863
Unrestricted	-	93,664	93,664
Total net assets	813,810	93,664	907,474
Total liabilities and net assets	<u>\$ 813,810</u>	<u>\$ 132,000</u>	<u>\$ 945,810</u>

CITY OF PETOSKEY  
Statement of Activities  
Nonmajor Component Units  
For the Year Ended December 31, 2005

Component Units: Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	TIFA	Downtown Management/ Parking	Total
TIFA	\$ 23,634	\$ -	\$ -	\$ -	\$ (23,634)	\$ -	\$ (23,634)
Downtown Management/Parking	200,886	394,524	-	-	-	193,638	193,638
Total component units	\$ 224,520	\$ 394,524	\$ -	\$ -	(23,634)	193,638	170,004
General revenues:							
Property taxes					184,273	-	184,273
Interest and investment earnings					10,996	2,330	13,326
Transfers					-	(164,288)	(164,288)
Total general revenues and transfers					195,269	(161,958)	33,311
Change in Net Assets					171,635	31,680	203,315
Net Assets - beginning of year					642,175	61,984	704,159
Net Assets - end of year					\$ 813,810	\$ 93,664	\$ 907,474

**CITY OF PETOSKEY**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**December 31, 2005**

<u>Assets</u>	<u>Motor Vehicle and Equipment</u>	<u>Employee Fringe Benefit</u>	<u>Total</u>
<b>Current Assets</b>			
Cash	\$ 348,807	\$ 539,148	\$ 887,955
Due from other funds	49,934	359,403	409,337
Due from component units	-	24,193	24,193
Inventory	38,295	-	38,295
Prepaid expenses	-	66,311	66,311
	<u>437,036</u>	<u>989,055</u>	<u>1,426,091</u>
<b>Total current assets</b>			
	<u>437,036</u>	<u>989,055</u>	<u>1,426,091</u>
<b>Noncurrent Assets</b>			
Capital assets	4,350,009	-	4,350,009
Less: accumulated depreciation	(2,571,356)	-	(2,571,356)
	<u>1,778,653</u>	<u>-</u>	<u>1,778,653</u>
<b>Total noncurrent assets</b>			
	<u>1,778,653</u>	<u>-</u>	<u>1,778,653</u>
<b>Total assets</b>	<u>\$ 2,215,689</u>	<u>\$ 989,055</u>	<u>\$ 3,204,744</u>
 <b><u>Liabilities and Fund Equity</u></b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 18,846	\$ 86,033	\$ 104,879
Accrued wages	815	-	815
Due to other funds	5,595	-	5,595
	<u>25,256</u>	<u>86,033</u>	<u>111,289</u>
<b>Total current liabilities</b>			
	<u>25,256</u>	<u>86,033</u>	<u>111,289</u>
<b>Noncurrent Liabilities</b>			
Compensated absences payable	-	46,228	46,228
	<u>-</u>	<u>46,228</u>	<u>46,228</u>
<b>Total liabilities</b>	<u>25,256</u>	<u>132,261</u>	<u>157,517</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,778,653	-	1,778,653
Unrestricted	411,780	856,794	1,268,574
	<u>2,190,433</u>	<u>856,794</u>	<u>3,047,227</u>
<b>Total net assets</b>			
	<u>2,190,433</u>	<u>856,794</u>	<u>3,047,227</u>
<b>Total liabilities and net assets</b>	<u>\$ 2,215,689</u>	<u>\$ 989,055</u>	<u>\$ 3,204,744</u>

**CITY OF PETOSKEY**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended December 31, 2005**

	Motor Vehicle and Equipment	Employee Fringe Benefit	Total
<b>Operating revenues</b>			
Charges for services	\$ 883,391	\$ 2,479,297	\$ 3,362,688
<b>Operating expenses</b>			
Personal services	77,598	-	77,598
Contractual services	461,745	2,168,756	2,630,501
Supplies	129,335	-	129,335
Depreciation	301,962	-	301,962
Total operating expenses	970,640	2,168,756	3,139,396
Operating income (loss)	(87,249)	310,541	223,292
<b>Nonoperating revenues (expenses)</b>			
Interest	8,507	10,347	18,854
Miscellaneous	16,282	-	16,282
Total nonoperating revenues	24,789	10,347	35,136
<b>Change in net assets</b>	(62,460)	320,888	258,428
<b>Total net assets - beginning of year</b>			
As previously reported	2,252,893	477,700	2,730,593
Adjustment for health insurance	-	58,206	58,206
<b>Total net assets - end of year</b>	<u>\$ 2,190,433</u>	<u>\$ 856,794</u>	<u>\$ 3,047,227</u>

CITY OF PETOSKEY  
Schedule of Bonded Indebtedness  
December 31, 2005

Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity October 1	Total Outstanding at December 31, 2005	Annual Interest Payable
May 1, 1996	\$ 480,000	5.20%	2005	\$ -	\$ 2,860

1996 Special Assessment Bonds  
with governmental commitment

Call provision: There are no call provisions.

**CITY OF PETOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2005**

	Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity October 1	Total Outstanding at December 31, 2005	Annual Interest Payable
1999 City of Petoskey Building Authority Refunding Bonds	August 12, 1999	\$ 965,000	4.55%	2006	\$ 105,000	\$ 18,405
			4.65%	2007	100,000	13,628
			4.70%	2008	95,000	8,978
			4.75%	2009	95,000	4,513
					<u>\$ 395,000</u>	<u>\$ 45,524</u>

Call provision:

The bonds maturing on or prior to October 1, 2008 are not subject to redemption prior to maturity. Bonds or portions of bonds maturing on or after October 1, 2009, are subject to redemption prior to maturity, at the option of the Issuer, in such order as the Issuer shall determine, on any interest payment date on or after October 1, 2008, in whole or in part in the amount designated by the Issuer, in order of maturities selected by the Issuer and by lot at par plus interest accrued to the redemption date.



**CITY OF PELOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2005**

	Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity	Total Outstanding at December 31, 2005	Annual Interest Payable
1999 City of Peloskey Building Authority Downtown Improvement Bonds	August 12, 1999	\$ 800,000	4.55%	2006	\$ 50,000	\$ 26,547
			4.65%	2007	50,000	24,273
			4.70%	2008	55,000	21,947
			4.75%	2009	55,000	19,363
			5.00%	2010	60,000	16,750
			5.00%	2011	65,000	13,750
			5.00%	2012	65,000	10,500
			5.00%	2013	70,000	7,250
			5.00%	2014	75,000	3,750
					<u>\$ 545,000</u>	<u>\$ 144,130</u>

Call provision: The bonds maturing on or prior to October 1, 2008 are not subject to redemption prior to maturity. Bonds or portions of bonds maturing on or after October 1, 2009, are subject to redemption prior to maturity, at the option of the Issuer, in such order as the Issuer shall determine, on any interest payment date on or after October 1, 2008, in whole or in part in the amount designated by the Issuer, in order of maturities selected by the Issuer and by lot at par plus interest accrued to the redemption date.

**CITY OF PETOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2005**

	Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity February 1	Total Outstanding at December 31, 2005	Annual Interest Payable
2001 City of Petoskey Water and Sewer Bonds	June 1, 2001	\$ 7,500,000	4.000%	2006	\$ 50,000	\$ 347,724
			4.000%	2007	100,000	344,724
			4.000%	2008	200,000	338,724
			4.000%	2009	200,000	330,724
			4.000%	2010	200,000	322,724
			4.100%	2011	200,000	314,624
			4.375%	2012	200,000	306,149
			4.375%	2013	300,000	295,212
			5.000%	2014	300,000	281,150
			5.000%	2015	300,000	266,150
			4.700%	2016	300,000	251,600
			4.700%	2017	400,000	235,150
			4.750%	2018	400,000	216,250
			4.750%	2019	400,000	197,250
			4.750%	2020	400,000	178,250
			4.750%	2021	500,000	156,875
			5.000%	2022	500,000	132,500
			5.000%	2023	600,000	105,000
			5.000%	2024	600,000	75,000
			5.000%	2025	600,000	45,000
			5.000%	2026	600,000	15,000
					<u>\$ 7,350,000</u>	<u>\$ 4,755,780</u>

Call provision: Bonds of this issue maturing in the years 2003 to 2011, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 maturing in the year 2012 and thereafter may be redeemed at the option of the issuer, in such order as the issuer shall determine and within any maturity by lot, on any interest payment date on or after February 1, 2011 at par and accrued interest to the date fixed for redemption.

**CITY OF PETOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2005**

	Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity February 1	Total Outstanding at December 31, 2005	Annual Interest Payable
2002 City of Petoskey Water and Sewer Refunding Bonds	November 7, 2002	\$ 5,505,000	3.000%	2006	\$ 320,000	\$ 207,998
			3.150%	2007	365,000	197,449
			3.500%	2008	360,000	185,400
			3.700%	2009	355,000	172,533
			3.900%	2010	395,000	158,263
			4.000%	2011	390,000	142,760
			4.100%	2012	385,000	127,067
			5.250%	2013	430,000	107,887
			5.250%	2014	425,000	85,443
			5.250%	2015	475,000	61,818
			5.250%	2016	470,000	37,012
			5.250%	2017	470,000	12,337
					<u>\$ 4,840,000</u>	<u>\$ 1,495,967</u>

Call provision: Bonds maturing prior to February 1, 2013 are not subject to redemption prior to maturity. Bonds maturing on or after February 1, 2013 are subject to redemption prior to maturity, at the option of the City, in such order as the City shall determine, on any interest payment date on or after August 1, 2012, in whole or in part in the amount designated by the City, in order of maturities selected by the City at par, plus interest accrued to the redemption date.

**CITY OF PETOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2005**

	Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity	Total Outstanding at December 31, 2005	Annual Interest Payable
2003 City of Petoskey Library Improvement Bonds	July 1, 2003	\$ 4,300,000	2.500%	2006	\$ 50,000	\$ 162,375
			2.500%	2007	100,000	161,125
			2.500%	2008	100,000	158,625
			2.650%	2009	125,000	156,125
			2.900%	2010	125,000	152,812
			3.100%	2011	125,000	149,187
			3.300%	2012	150,000	145,312
			3.400%	2013	150,000	140,362
			3.550%	2014	150,000	135,263
			3.650%	2015	175,000	129,938
			3.850%	2016	175,000	123,550
			3.850%	2017	175,000	116,813
			3.850%	2018	200,000	110,075
			3.950%	2019	200,000	102,375
			4.050%	2020	200,000	94,475
			4.150%	2021	200,000	86,375
			4.150%	2022	200,000	78,075
			4.200%	2023	250,000	69,775
			4.350%	2024	250,000	59,275
			4.400%	2025	250,000	48,400
			4.400%	2026	250,000	37,400
			4.400%	2027	300,000	26,400
			4.400%	2028	300,000	13,200
					<u>\$ 4,200,000</u>	<u>\$ 2,457,312</u>

Call provision: Bonds maturing in the years 2004 to 2012, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 maturing in the years 2013 through 2028, inclusive, shall be subject to redemption, at the option of the City, in such order as the City shall determine and within any maturity by lot, on any interest payment date on or after October 1, 2012 at par and accrued interest to the date fixed for redemption.